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1. EXTENDED DISCUSSION AT FONOFF WORKING LEVEL TODAY BROUGHT OUT FOLLOWING ITALIAN VIEWS ON MECHANICS OF FORTHCOMING BILATERAL NEGOTIATIONS:

A) DEFINITE ANSWER NOT POSSIBLE UNTIL AMBASSADOR CAPOMAZZA REACHES ROME, BUT GOI DOES NOT PPT NOT FAVOR HIS MAKING PRELIMINARY TRIP TO WASHINGTON. HE WILL NEED ALL TIME AVAILABLE TO PREPARE HIMSELF FOR JANUARY TALKS AND BEFORE THEN WOULD ONLY BE ABLE TO LISTEN TO US VIEWS.

B) FONOFF OFFICIAL SUGGESTED; HOWEVER, THAT AFTER CAPOMAZZA HAS HAD FIRST ROUND OF BRIEFINGS AND DISCUSSIONS WITHIN GOI, S' PRELIMINARY EXPOSITION OF US VIEWS MIGHT BE MADE THROUGH

EMBASSY ROME OR THROUGH VISIT WASHINGTON OFFICIAL HERE, SAY IN DECEMBER. THIS WOULD GIVE CAPOMAZZA OPPORTUNITY ACQUIRE PERSONAL "FEEL" OF AMERICAN POSITION.

C) PRESENT FONOFF CONCEPT OF JANUARY MEETING IS, HOWEVER, THAT IT SHOULD ITSELF BE PRELIMINARY EXPOSITION OF VIEWS RATHER THAN FULL-DRESS BARGAINING SESSION. FONOFF DOES NOT BELIEVE PROBLEMS WILL BE RESOLVABLE IN ONE ENCOUNTER OF WHATEVER LENGTH, AND THEREFORE WOULD PREFER JANUARY TALKS TO INVOLVE VERY LIMITED NUMBERS ON EACH SIDE. PURPOSE WOULD BE FOR EACH SIDE TO EXPLAIN CLEARLY AND SPECIFICALLY TO THE OTHER WHAT SORT OF FINAL AGREEMENT EACH HAS IN MIND. TALKS WOULD RESUME LATER AFTER EACH SIDE HAD HAD OPPORTUNITY TO DEVELOP ITS PROPOSALS TAKING INTO ACCOUNT ATTITUDES THAT HAVE BEEN EXPOSED BY OTHER SIDE.

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2. ON SUBSTANCE OF ITALIAN POSITION FONOFF OFFICIAL MADE FOLLOWING POINTS: A) FONOFF HAD REPLACED GENERAL SANTINI WITH AMBASSADOR CAPOMAZZA PARTLY BECAUSE US DELEGATION HEAD ALWAYS STATE DEPARTMENT OFFICIAL, PARTLY BECAUSE SANTINI IN A SENSE PERSONIFIED PAST DIFFICULT AND CLAMOROUS NEGOTIATIONS, AND ALSO TO RAISE TALKS TO LESS TECHNICAL LEVEL. B) IN STUDYING US BILATERALS WITH OTHER COUNTRIES, FONOFF HAD BEEN STRUCK BY FACT THAT THESE,

WHILE PROVIDING FOR BERMUDA-TYPE CAPACITY CLAUSES, ALSO PROVIDED FOR EQUITABLE AND VERY SPECIFIC EXCHANGES OF ROUTES. THIS WAS HARDLY THE CASE IN THE PRESENT US-ITALY BILATERAL. C) IN ESSENCE, QUESTION BEFORE NEGOTIATORS IS HOW VALUABLE ITALY IS CONSIDERED BY AMERICAN CARRIERS AS TERMINAL AND TRANSIT POINT. IF US CARRIERS ARE SUFFICIENTLY INTERESTED IN ITALY, IT MAY BE POSSIBLE FOR US TO GRANT ITALY SAME SORT OF RECIPROCAL ROUTE STRUCTURE IT HAS GRANTED ENGLAND, FRANCE, GERMANY AND OTHERS. IN THIS CASE, FONOFF BELIEVES THERE IS GOOD CHANCE GOI CAN BREAK THROUGH ALITALIA'S PROTECTIONIST POSITION ON CAPACITY. D) IF, HOWEVER, AMERICAN CARRIERS REGARD ITALY AS LESS CRUCIAL, RESULTS OF NEGOTIATIONS WILL PROBABLY BE UNFORTUNATE EXERCISE IN MUTUAL RESTRICTIONS THAT WILL LIMIT ROUTES AND FREQUENCIES ON BOTH SIDES. FONOFF WAS IMPRESSED BY COMMENT OF BRITISH NEGOTIATOR BURNS IN BILATERAL TALKS LAST MAY; HE REFERRED TO UK-US BERMUDA AGREEMENT AND SAID "WE DO NOT CARE WHAT WE GIVE AS LONG AS WE GET WHAT WE NEED." FONOFF WORKING LEVEL DOES NOT SEE WHY GOI SHOULD NOT ADOPT SAME ATTITUDE.

3. COMMENT: A) WE ARE IMPRESSED BY APPARENT FIRM INTENTION OF FONOFF TO PLAY LEADING ROLE IN NEGOTIATIONS, AND BY EQUALLY

FIRM INTENTION OF FONOFF TO OBTAIN AN AGREEMENT THAT PLACES ITALY ON PAR WITH OTHER MAJOR CIVIL AVIATION POWERS AS REGARDS RELATIONS WITH US. FOR UNDERSTANDABLE POLITICAL REASONS, THIS SEEMS TO BE MAJOR PREOCCUPATION OF FONOFF. WE SENSE ALSO THAT FONOFF IS NOT IMPRESSED BY POOR-MOUTH TALK OF ALITALIA, AND DOUBTS LONG TERM NATIONAL BENEFITS OF PROTECTIONISM IN FAST-GROWING FIELD OF CIVIL AVIATION.

B) FONOFF OFFICIAL NOT OPTIMISTIC ABOUT PROSPECTS IN BILATERAL NEGOTIATIONS, IN VIEW HISTORY OF DISAPPOINTMENTS. HE THOUGHT IT WOULD BE BEST FOR BOTH SIDES TO APPROACH NEGOTIATIONS FULLY AWARE OF DIFFICULTIES AHEAD AND READY TO CONSIDER AND DISCUSS ALL THE ALTERNATIVES INCLUDING THE CONSEQUENCES OF FAILURE TO REACH AGREEMENT.

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